

# FISCAL NOTE

**Bill #:** SB0272

**Title:** Progressive gross receipts tax for big box stores

**Primary Sponsor:** Toole,K

**Status:** As Introduced

Sponsor signature	Date	David Ewer, Budget Director	Date
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## Fiscal Summary

	<b><u>FY 2006 Difference</u></b>	<b><u>FY 2007 Difference</u></b>
<b>Expenditures:</b>		
General Fund	\$58,763	\$49,735
<b>Revenue:</b>		
General Fund	\$15,152,000	\$16,403,000
<b>Net Impact on General Fund Balance:</b>	\$15,093,237	\$16,353,265

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|---|--|
| <input type="checkbox"/> Significant Local Gov. Impact    | <input checked="" type="checkbox"/> Technical Concerns           |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts           |
| <input type="checkbox"/> Dedicated Revenue Form Attached  | <input checked="" type="checkbox"/> Needs to be included in HB 2 |

## Fiscal Analysis

### ASSUMPTIONS:

1. This bill would impose a gross receipts tax on retail sales of taxable establishments that have total gross receipts of at least \$20 million. The tax rate would be 1 percent on gross receipts between \$20 million and \$30 million, 1.5 percent on gross receipts in excess of \$30 million up to and including \$40 million, and 2 percent on gross receipts in excess of \$40 million. Gross receipts from sales for resale, sublease, or sub-rent, and sales of vehicles requiring registration or subject to tax/fee, farm implements, gasoline, and electricity, are exempt from the tax.
2. Allowable cash discounts, uncollectible accounts, or final liquidation of accounts would be excluded from taxable gross receipts.
3. Taxable establishments are those retailers who have entry-level compensation packages of less than \$22,000 and have a workforce of which 25 percent are employed less than 40 hours a week. Data is not available on the number of firms with annual sales over \$20 million that would be exempt from the tax based on entry-level compensation and percentage of part-time workers. This fiscal note assumes all retailers in Montana with sales over \$20 million would be subject to the tax proposed in this bill.
4. Taxable establishments may deduct the cost of employer contributions for retirement benefits and health insurance from total gross receipts collected. Based on figures from the Economic Census, the Bureau of

## Fiscal Note Request SB0272, As Introduced

(continued)

Labor Statistics, and the Department of Health, the estimated annual deduction from gross receipts for retirement and health per firm is \$331,802.

5. The bill requires each taxable establishment to file an annual return and remit gross receipts taxes owed on or before January 31. The amount of gross receipts taxes owed is based on total retail sales occurring during the preceding calendar year. The tax would apply beginning calendar year 2005, with the first filed returns received January 31, 2006. All taxes collected under this bill would be deposited in the state general fund.
6. Sales at individual taxable establishments are assumed to grow at 3.1 percent a year and number of firms subject to the tax by 5 percent a year.
7. In calendar year 2005, retailers' receipts of \$580.85 million would be subject to the 1 percent tax rate, gross receipts of \$315.54 million subject to the 1.5 percent tax rate, and gross receipts of \$230.54 would be subject to the 2 percent tax rate. Collection in FY 2006 for sales in calendar year 2005 would be \$15.152 million (\$580.85 million X 1% + \$315.54 million X 1.5% + \$230.54 million X 2%). Collection in FY 2007 for sales in calendar year 2006 would be \$16.403 million (\$628.79 million X 1% + \$341.59 million X 1.5% + \$249.57 million X 2%).
8. The Department of Revenue would require 1.00 FTE and 0.25 additional seasonal FTE to register companies, process returns, and audit taxpayers. Administrative costs are estimated as \$58,763 for FY 2006 and \$49,735 in FY 2007 as provided below.
9. Assuming funding for the full maintenance and support costs for the GenTax system, no further information technology costs are required by the department.

### FISCAL IMPACT:

	FY 2006 <u>Difference</u>	FY 2007 <u>Difference</u>
FTE	1.25	1.25

### Expenditures:

Personal Services	\$43,086	\$42,941
Operating Expenses	9,877	6,794
Equipment	<u>5,800</u>	<u>0</u>
TOTAL	\$58,763	\$49,735

### Funding of Expenditures:

General Fund (01)	\$58,763	\$49,735
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### Revenues:

General Fund (01)	\$15,152,000	\$16,403,000
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### Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$15,093,237	\$16,353,265
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### TECHNICAL NOTES:

1. It would be difficult for the Department of Revenue to verify and monitor whether employers pay entry-level compensation packages to all new employees of at least \$22,000.
2. A firm is subject to the tax if 25 percent of its workforce works less than 40 hours a week on an annualized basis. The firm and the department would need to collect data from all employee records in order to make this determination.

**Fiscal Note Request SB0272, As Introduced**

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3. It is not clear how seasonal employees or seasonal variations in work hours are to enter into the determination of whether less than 25 percent of an establishment's employees work less than 40 hours a week.
4. The bill specifies that gasoline sales are exempt, but does not indicate that diesel sales are exempt. This increases the effort on the part of the establishment and the department to distinguish sales amounts by type of fuel.
5. The annual filing deadline of January 31 may not provide some taxpayers adequate time to assess tax liability. Providing additional time may decrease the number of amended returns processed.